

RETENTION BONUSES

More Direction and Oversight Needed



AMERICAN OVERSIGHT

National Security and
International Affairs Division

B-259744.2

November 24, 1995

The Honorable Robert K. Dornan
Chairman
The Honorable Owen B. Pickett
Ranking Minority Member
Subcommittee on Military Personnel
Committee on National Security
House of Representatives

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This review was conducted to determine whether the Department of Defense (DOD) is effectively managing the Selective Reenlistment Bonus (SRB) program. As agreed with your office, this report is addressed to you because of the Subcommittee's ongoing interest in special pays and allowances. The specific objectives were to (1) ascertain whether reenlistment bonuses were being paid to enlisted servicemembers in skill categories that were not experiencing significant personnel shortages or skills that were also receiving separation incentives and (2) assess the oversight of the program by the Office of the Secretary of Defense (OSD). The SRB program is one means DOD is using to achieve its force manning objectives as the services downsize. We have previously reported that the services have been successful in maintaining high aggregate personnel levels throughout the drawdown.¹ This report looks below aggregate personnel levels and focuses on personnel levels within occupational specialties.

Background

The SRB program is authorized by 37 U.S.C. 308 to help maintain an adequate level of experienced and qualified enlisted personnel. The program authorizes bonuses of up to \$45,000 to personnel in critical skills who have between 21 months and 14 years of active-duty service and who reenlist or extend their reenlistments for at least 3 years. The intent of the program, according to DOD, is to focus reenlistment incentives on critical skills that are in short supply and have high training costs.

Results in Brief

We found that the services are awarding some SRBs to skills where a high percentage of the required positions are already filled. In fiscal year 1994,

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¹Military Personnel: High Aggregate Personnel Levels Maintained Throughout Drawdown (GAO/NSIAD-95-97, June 2, 1995).

for example, 43 percent of the new SRB contracts² awarded went to servicemembers in skills where 90 percent or more of the required positions were filled (the level used by the readiness reporting system to indicate a unit's capability to perform all mission requirements) and in which many higher skill level servicemembers were paid incentives to leave the service. The value of these SRB contracts was about \$64 million.

Service officials defended their management of the retention and separation incentive programs, stating that each is targeted at different segments of the force, that retention and separation incentives went to personnel in different grades and year groups (cohorts of personnel with the same number of years of military experience), and that payment of separation incentives did not mean they were satisfied with manning levels. We believe that if a skill is experiencing shortages that warrant paying retention incentives, it is not prudent to pay incentives to others in that same skill to leave the service.

OSD is not providing adequate direction and oversight of the SRB program. Its guidance to the services for determining which skill categories should receive SRBs is too general in nature. As a result, each service uses a different procedure for identifying which skill categories are to receive SRBs. Also, OSD's oversight of the SRB program is lacking. While OSD guidance requires detailed annual reviews of the skill categories that the services plan to include in their programs, these reviews are not being conducted. OSD performed only one such review—in fiscal year 1991—during which the need for 34 percent of the proposed skill categories was questioned. However, OSD did not require the services to respond to the report's findings, did not take any action on the findings, and has not conducted any subsequent reviews.

Evolution of Current Program

The current SRB program can be traced to 1965, when the services began to experience increasing problems in first-term retention and career manning in a number of technical, high training cost skills. In addressing the problem, DOD recommended the creation of a flexible reenlistment bonus program that could be tailored to fit particular skill-retention requirements and that could be changed as those requirements changed. As a result, Congress established the Variable Reenlistment Bonus program in 1965. In

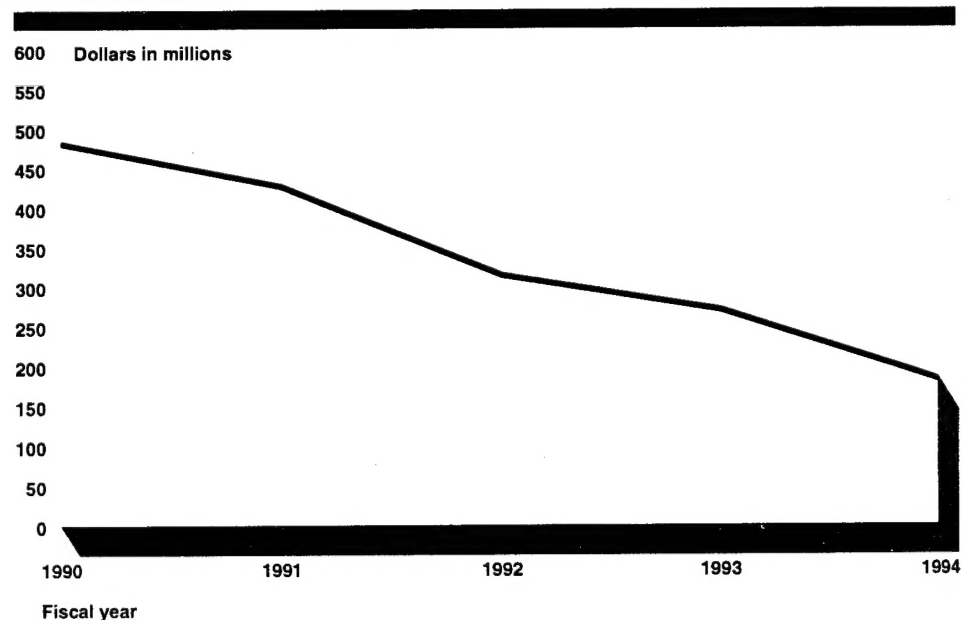
²Generally, half the amount payable for an SRB reenlistment is paid at the beginning of the reenlistment period, with the remaining half paid in equal annual installments over the remaining term of the reenlistment. In this report, the term "new contracts" is used to indicate SRB reenlistment contracts initiated within the given fiscal year. When discussing the cost of new contracts, we refer to the total value of the contracts (initial 50-percent payment and outyear installments).

the ensuing years, this became the SRB program and was modified and extended to address concerns about retention and manning problems.

The Secretary of Defense has established three eligibility zones for the payment of SRBs. Zones are defined in terms of years of active-duty service. Zone A includes reenlistments falling between 21 months and 6 years of active duty; zone B, between 6 and 10 years; and zone C, between 10 and 14 years. The service secretaries designate which skills and which zones within those skills are eligible to receive SRBs. Servicemembers may receive only one SRB within any one zone.

The total cost of new SRB contracts awarded has declined over the past 5 years (see fig. 1). According to service officials and budget justification documents submitted to Congress, the main reason for the declines was the force downsizing occurring during this period, which reduced the need for military personnel. According to DOD, SRB contracts declined by nearly 60 percent during the last 5 years while the force declined about 30 percent.

**Figure 1: Cost of New SRB Contracts,
Fiscal Year 1990-94**



In fiscal years 1993 and 1994, personnel in approximately 20 percent of DOD's enlisted skills were awarded SRBs. More than 30 percent of the enlisted personnel were in those skills. However, not all of these servicemembers would be eligible for SRBs in a given year because they would not be up for reenlistment in that year or would not be in a zone that was eligible for SRBs. According to DOD, 1.1 percent of all active-duty personnel received a new SRB contract in 1994, down from 2.4 percent in 1990.

The cost of the SRB program varies considerably by service. Table 1 shows the number of people who received new SRB payments in fiscal year 1994, the total cost, and the average cost per recipient of those new SRB contracts. Nearly 60 percent of the total cost for new SRB contracts was incurred by the Navy. Also, the average new SRB contract cost per recipient was higher in the Marine Corps and the Navy than in the other two services.

Table 1: Number and Cost of New SRB Contracts, Fiscal Year 1994

	Bonus recipients	Contract cost (in millions)	Average contract cost (in thousands)
Air Force	2,408	\$20.1	\$8.3
Army	5,641	46.3	8.2
Marine Corps	918	13.6	14.8
Navy	9,170	113.5	12.4
Total	18,137	\$193.5	\$10.7

SRBs Awarded to Personnel in High-Fill Skill Categories

Many SRBs have gone to personnel who are not in skill categories where extensive shortages exist. To determine whether SRBs are awarded only where needed to overcome shortages, we applied two measures to each skill category that received SRBs in either fiscal year 1994 or 1993: (1) overall fill rate at the beginning of the fiscal year (defined as the percent of required positions that were filled) and (2) whether individuals in that same skill category had been given financial incentives to leave the service.

A Substantial Proportion of SRB Payments Went to Personnel in Skills With High Fill Rates

We used the proportion of required positions filled as an indicator of whether a skill was experiencing a significant personnel shortage. The Status of Resources and Training System (SORTS), which is the system used by the services for reporting unit readiness, has established criteria that units with 90 percent of their assigned personnel on hand are considered

prepared to conduct all required wartime missions. Therefore, we used the 90-percent fill rate as an indicator of high fill. Also, according to representatives of the Air Force and the Marine Corps, a fill rate of 90 percent or less in a skill category flags that category for consideration for an SRB. Neither the Army nor the Navy had a specific fill rate threshold for SRB consideration.

Using service-provided fill rates and SRB information, we found that 81 percent of people awarded SRBs across DOD in fiscal year 1994 and 78 percent in fiscal year 1993 were in skill categories that were filled at least at the 90-percent level. The cost of these contracts was about \$155 million in fiscal year 1994 and about \$165 million in fiscal year 1993.

Figures 2 and 3 show the percentage of new SRB contracts given to personnel in high-fill skill categories in fiscal years 1994 and 1993. The figures show the results of analyses at three levels of fill (90, 95, and 100 percent) by service. As these figures show, a substantial proportion of the SRB payments went to personnel in skill categories that were not experiencing large shortfalls. While the percentages drop as the fill rate increases, each service paid a substantial proportion of its new SRBs to personnel in skill categories that were already filled 100 percent or higher. Across DOD, 25 percent of fiscal year 1994 and 30 percent of fiscal year 1993 SRB recipients were in skill categories with fill rates of 100 percent or higher. The cost of these contracts was about \$58 million in fiscal year 1994 and about \$71 million in fiscal year 1993.

Figure 2: Fiscal Year 1994 Contracts to Personnel in High-Fill Skill Categories

100 Percent of new bonus contracts

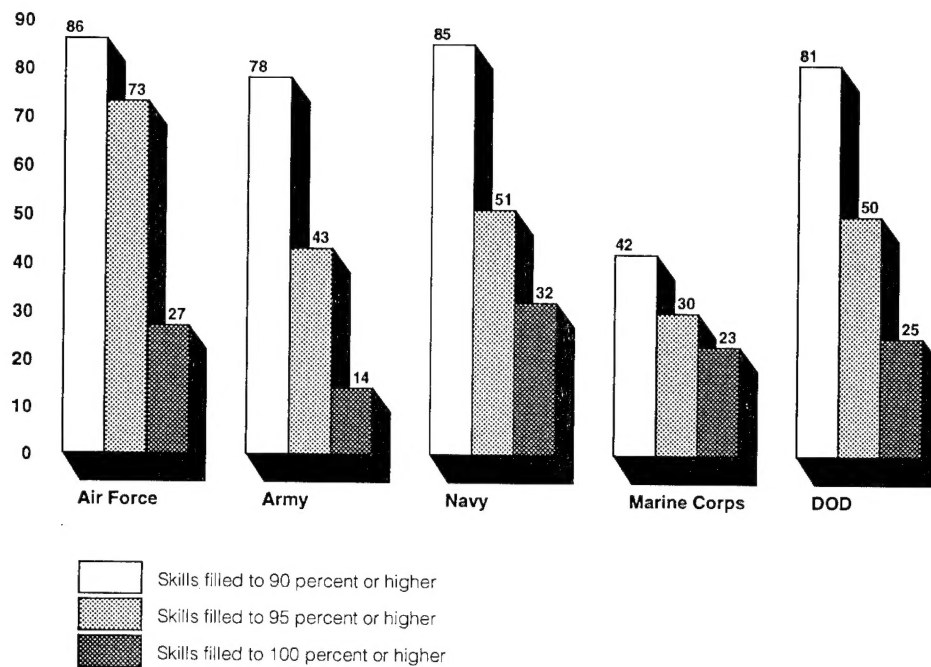
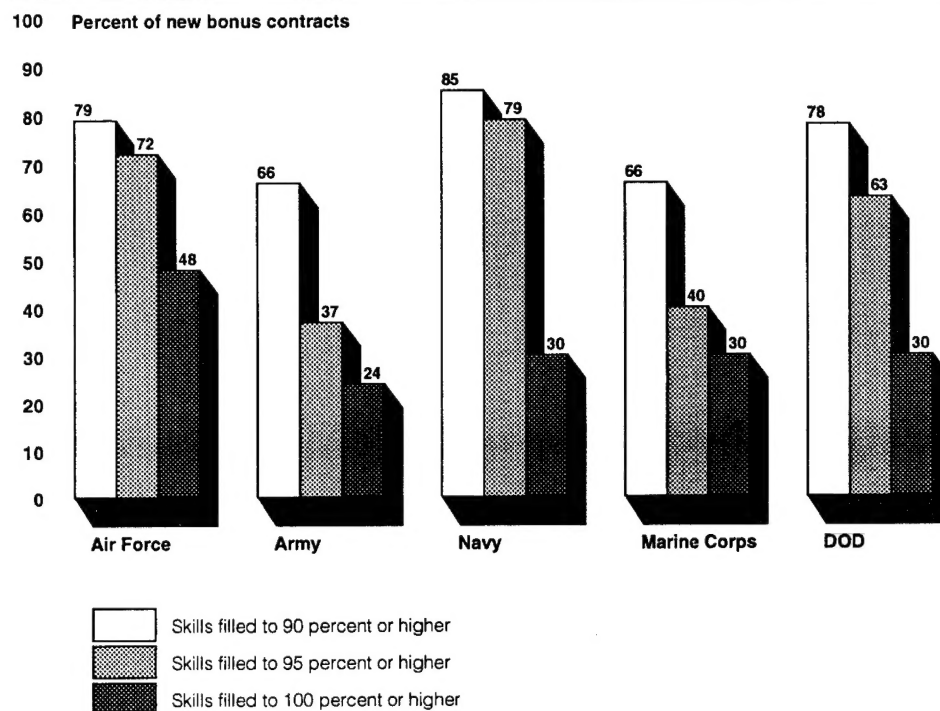


Figure 3: Fiscal Year 1993 Contracts to Personnel in High-Fill Skill Categories



SRBs and Separation Incentives Were Given to the Same Skill Categories

In recent years, retention needs have declined with reduced force levels. To facilitate military downsizing, Congress authorized two types of special separation pay to personnel who voluntarily leave the military by September 30, 1999, but are not eligible to retire: (1) the Voluntary Separation Incentive (vsi), which is a variable annuity payment, and (2) the Special Separation Benefit (ssb), which is a one-time, lump-sum payment.³ We were initially told by OSD and service representatives that retention and exit bonuses should not be going to personnel in the same skill categories. However, in fiscal years 1994 and 1993, 48 percent of the personnel awarded new SRB contracts were in skill categories in which other personnel in the same skill categories received financial separation incentives. In fiscal year 1994, nearly 8,800 military personnel who received new SRB contracts (at a cost of about \$73 million) were in the same skill categories as about 2,100 of the separation-incentive recipients (who received about \$82 million to leave the military). In fiscal year 1993, nearly 10,300 military personnel who received new SRB contracts (at a cost of about \$75 million) were in the same skill categories as about 2,100 of

³10 U.S.C. 1174a and 1175.

the separation incentive recipients (who received about \$82 million to leave). Thus, either the services are paying SRBs to people with skills that are not in short supply or they are paying exit incentives to people with skills that are in short supply.

Table 2 shows the number of new fiscal year 1994 SRB recipients in each service who were in skill categories where separation incentives were paid, the percentage of total SRB recipients that this group comprised, and the cost of those new SRB contracts. Eighty-four percent of the Army's new SRB recipients were in skill categories in which separation incentives were also paid.

Table 2: Selective Reenlistment Bonus and Separation Incentive Match (Fiscal Year 1994)

Dollars in millions

	Total SRB recipients	SRBs in skills that received exit bonuses		
		Number	Percent	Cost
Air Force	2,408	670	28%	\$5.6
Army	5,641	4,720	84	38.7
Marine Corps	918	636	69	9.1
Navy	9,170	2,753	30	20.0
Total	18,137	8,779	48%	\$73.4

About Half of SRBs Awarded in High Fill Skill Categories That Also Received Separation Incentives

A more stringent test of whether SRBs were going to personnel who were not in shortage categories involves the determination of how many SRB recipients were in skill categories that had high fill rates and where other personnel in the same skill categories received incentive payments to leave the military. In fiscal years 1994 and 1993, 43 percent of the new SRB contracts awarded (at a cost of about \$64 million in fiscal year 1994 and \$65 million in fiscal year 1993) were in skill categories that met both of the measures we applied—fill rates of 90 percent or higher and payment of separation incentives. Furthermore, 9 percent of new SRB contracts awarded in fiscal year 1994 and 17 percent in fiscal year 1993 were in skill categories with fill rates of 100 percent or higher and to which exit incentives were paid. The cost of these contracts was about \$14 million for fiscal year 1994 and about \$29 million for fiscal year 1993.

Figures 4 and 5 show the percentage of new SRB contracts by service that went to personnel in skill categories having high fill rates and where other personnel in the same skill categories received separation incentives in fiscal years 1994 and 1993. The number of separation incentives given by the Air Force in fiscal year 1993 includes those given in fiscal year 1992.

Air Force officials told us that they ran fiscal years 1992 and 1993 exit incentive programs as one program and were unable to provide information on fiscal year 1993 by itself. The reduction of the percentages from fiscal years 1993 to 1994 in the Air Force and the Marine Corps results primarily from reductions in the number of separation incentives given.

Figure 4: Fiscal Year 1994 SRB Contracts in High-Fill Skill Categories That Also Received Separation Bonuses

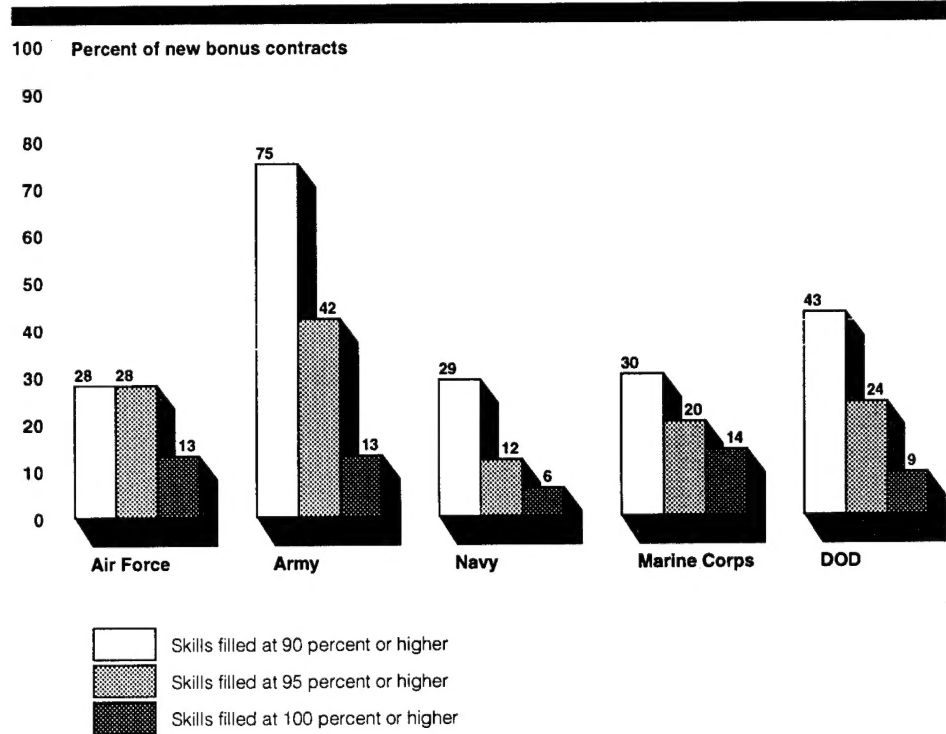
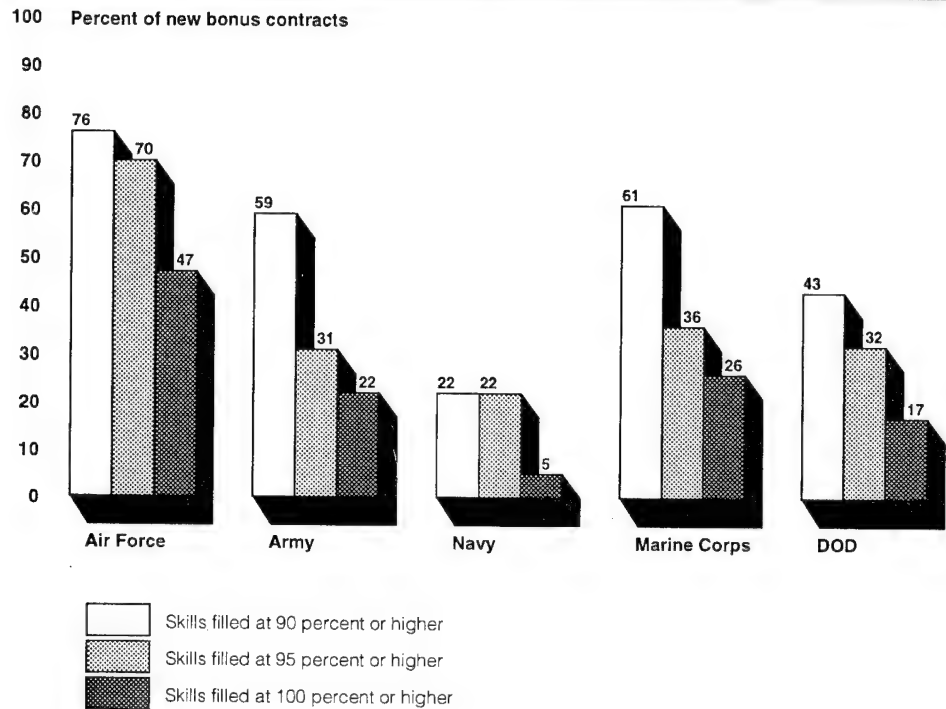


Figure 5: Fiscal Year 1993 SRB Contracts in High-Fill Skill Categories That Also Received Separation Bonuses



Services' Rationale for SRBs and Separation Incentives in Same Skills

Service officials told us that although they had paid some people to stay and other people to leave in the same military skills, the retention and separation incentive programs were directed at different grade and year groups. We agree. However, we believe that if a skill is critically short and warrants retention bonuses, separation incentives should not be given to personnel in those skills. Air Force officials told us that they changed their policy in fiscal year 1994 to not allow members in SRB skills to separate using VSI/SSB except in cases of documented extreme hardships because they did not think it was appropriate to pay some people to stay and others to leave in the same skill.

Service officials also said that their payment of VSI/SSB incentives to personnel in an SRB skill did not mean that they were satisfied with the fill rate in that skill. Rather, they said the separation incentives were given in an effort to comply with congressional direction to use voluntary means to achieve force reductions. While Congress encouraged the services to use voluntary means wherever possible to achieve needed reductions, we found no indication in the legislative history that Congress intended that

the services offer voluntary separation incentives to personnel in critically short skills to avoid involuntarily separating personnel in skills with excesses.

Service officials also took issue with our use of the 90-percent fill level as an indication that a skill was not critically short. We agree that some skills might be considered critically short at anything less than 100-percent fill. That is why we also provided data on the 95-percent and 100-percent fill levels. However, the services have not defined which skills require higher fill rates than the 90-percent criterion used for readiness reporting.

OSD Guidance and Oversight of the SRB Program Are Lacking

OSD is not providing adequate direction and oversight of the SRB program. OSD guidance to the services for determining which skills should receive SRBs is general and oversight review of the services' programs is lacking.

OSD guidance for determining those skills to receive SRBs instructs the services to use a "balanced evaluation" that "should include, but not be limited to, a full assessment of the following factors."

- Serious undermanning in three or more adjacent year-groups in the bonus zones.
- Chronic and persistent shortages in total career manning.
- High replacement cost.
- Skills that are relatively arduous or otherwise unattractive compared to other military skills or civilian alternatives.
- Skills that are essential to the accomplishment of defense missions.

OSD has not defined many of the terms in its guidance, such as "serious undermanning" and "chronic and persistent shortages," nor has it established how much weight should be given to each of the selection factors. As a result, each service uses a different procedure to identify and prioritize which skills will receive SRBs. Service officials said that, in deciding who will receive SRBs, they consider factors similar to the OSD guidance, such as whether the skill is currently receiving an SRB, reenlistment trends, fill rates, the skill's criticality to accomplishing the defense mission, and the cost, length, and availability of training. They too have not established criteria for determining how much weight to give these various factors.

OSD has proposed new guidelines for the SRB program, but these guidelines do not clarify the selection criteria. They state that the purpose of the SRB

program is "to encourage the reenlistment of sufficient numbers of qualified enlisted uniformed services personnel in critical military specialties with high training costs or demonstrated retention shortfalls." The use of the connector "or" appears to broaden the purpose of the program, which is stated in the current guidelines as "intended to attract more reenlistments in critical military specialties characterized by retention levels insufficient to sustain the career force at an adequate level." While we agree that training costs should be a consideration in deciding whether to give retention bonuses, we do not believe that high training cost alone justifies payment of retention incentives if the personnel are not in specialties experiencing demonstrated retention shortfalls.

Although OSD guidance specifies that OSD conduct a detailed annual review of the SRB program, examining each skill category programmed for an SRB, such annual reviews have not been conducted. A one-time study conducted by OSD in 1991 of the skill categories that the services were including in their programs, identified several areas of concern and questioned the need to provide SRBs to 34 percent of the proposed skill categories. OSD did not require the services to respond to the report's findings, took no action on the findings, and has conducted no further reviews of the SRB program.

Recommendations

We recommend that the Secretary of Defense establish guidance and controls to ensure that the SRB program provides bonuses only for reenlistments in skill categories that are in short supply. Specifically, we recommend that the Secretary (1) provide more explicit guidance regarding the determination of shortage categories and eligibility for SRBs and require the services to establish and document more specific criteria for determining which skills will receive SRBs and (2) monitor the services' adherence to this guidance. Because of the extent to which exit incentives have been provided to personnel in skills which also received SRBs, we recommend that the Secretary ensure that payment of exit and retention incentives is coordinated so that they are not both provided to personnel in the same skill categories.

Agency Comments and Our Evaluation

DOD did not agree with our findings or recommendations, stating that our methodology and analysis were flawed. DOD's comments are included in their entirety in appendix I.

DOD stated that our analysis was flawed by an assumption that 90 percent manning is a satisfactory level of fill in all skill categories. DOD stated that certain skill categories are imminently critical to the mission of each service and that, in many cases, 100 percent of authorized manning is not enough to do the job. Consequently, using 90 percent as the delineation of high fill for critical skills is unacceptable to DOD.

We did not assume that 90-percent fill is necessarily sufficient. Although 90 percent of authorized positions is the fill level used in the official DOD unit readiness reporting system to indicate a capability to perform all assigned missions, we agree with DOD that what is considered to be an adequate fill level can vary by skill. For this reason, we provided data on the 90-percent, 95-percent, and 100-percent fill levels. Our point, therefore, was not that 90 percent represents high fill, but that DOD has failed to adequately define which skills require higher fill rates. That is, when DOD states that "certain skill categories are imminently critical to the mission of each service," we expected to find some definition or criteria that would identify which skills those were or how they could be determined. Furthermore, if it is true as DOD asserts that "in many cases . . . 100 percent of authorized manning is not enough to do the job," then manpower requirements need to be reexamined. In addition, if DOD believes that the 90-percent manning figure used in readiness reporting does not represent a level that enables a unit to perform all required missions, it needs to revise its criteria so that an accurate picture of readiness can be conveyed to military decisionmakers.

DOD stated that our methodology was also flawed because we looked at manning levels across entire skills rather than looking at manning within SRB years of experience zones. DOD stated that it is essential to continue to administer the SRB program by zones "since the services have requirements for minimum levels of manning within each of these zones." However, enlisted force managers in each of the services told us that they do not manage their enlisted force by SRB zones nor do they routinely express their requirements by zone. Rather, they manage by grade level or years of service groups that overlap the SRB zones.

We originally attempted to analyze fill rates by SRB zone, but, except for the Navy, the services could not readily provide us with fill rates by zone. In analyzing the Navy's data by zone, we found that about 50 percent of the skill zones given SRBs in fiscal year 1994 were filled at rates of 90 percent or higher. In fact, 35 percent were filled at rates of 100 percent or higher. Consequently, looking at fill rates by zone where the services were able to

provide the data did not change our conclusion that some SRBs were being paid to people in skills that did not appear to have critical shortages.

We found similar results when we looked at the Air Force. Air Force officials told us that they do not consider fill rates by zone when making SRB decisions. They stated that in most cases they provide SRBs to personnel in zones A and B to ensure sufficient personnel at the noncommissioned officer (NCO) level. In examining this, however, we found that most of the skills that were filled at or above the 90-percent level overall, also had NCO fill rates of at least 90 percent. In fiscal year 1994, 64 percent of SRB skills with fill rates of 90 percent or higher also had NCO fill rates of 90 percent or higher and 21 percent had fill rates of 100 percent or higher. In fiscal year 1993, 78 percent of SRB skills with fill rates of 90 percent or higher also had NCO fill rates of 90 percent or higher and 44 percent had fill rates of 100 percent or higher. Thus, looking at Air Force NCO fill rates rather than overall fill rates does not change the conclusion that some SRBs were being paid to people in skills that did not appear to have critical shortages.

DOD noted that a person with 2 years' experience cannot be substituted for a person with 10 to 14 years of experience. We agree. Therefore, when we found the services paying separation bonuses to personnel with 10 to 14 years of experience in a skill area, we viewed it as an indication that the service personnel managers did not consider that skill area to be experiencing a critical shortfall. If service personnel managers believed that a skill area was critically undermanned, it would make no sense to provide incentives to the higher experienced personnel in that skill to leave the service and thus exacerbate the undermanning.

DOD also noted that it is not cost-efficient for a senior person to perform a function for which he is overqualified. Again, we agree. However, if there is really a critical shortage of lower skilled personnel and an excess of higher skilled personnel in that same occupation, we would expect the service to backfill with the higher skilled personnel rather than paying them bonuses to leave.

DOD also took issue with our finding that additional OSD oversight is required. DOD stated that the services and the Department spend a great deal of time and effort on the SRB program and it already goes through several lengthy review processes, including an annual budget justification. DOD also argues that the 1991 study declared the SRB program to be well-run and, therefore, no additional OSD oversight is required. The 1991

study, however, does not really support that conclusion. While making the general comment that the services' SRB programs were in compliance with DOD policy and were well-managed, the study identified 84 skills out of 250 (about 34 percent) that should be considered for further review.⁴ We could find no indication that those 84 skills were reexamined. Also, the study noted that the OSD policy guidance is very general and that there are numerous ways it can be interpreted, each interpretation leading to a very different analytic criteria. The study proposed an automated approach that would apply a set of objective criteria to each skill, resulting in two groups of skills—those that were acceptable and those that needed further consideration. The services would then be asked to comment on any skills that were identified by the criteria as needing further review.

OSD also stated that it does not want to add more complications to an already cumbersome system by layering additional restrictions on the services. DOD also noted that the services need flexibility to be able to respond to rapidly changing requirements for readiness. We do not see the exercise of adequate oversight as necessarily decreasing flexibility. The 1991 study stated that the approach it proposed would allow each of the services to develop, execute, and justify its SRB plans based on its unique requirements and objectives as long as they fit within the overall policy guidance.

Rather than use the approach suggested by the 1991 study or develop a similarly streamlined method of maintaining adequate oversight, OSD has opted for reducing its oversight of the SRB program. DOD Instruction 1304.22 stated that OSD "shall conduct a detailed annual review of the enlistment bonus, selective reenlistment bonus, and special duty assignment pay programs" in conjunction with Program Objectives Memorandum cycle. It further stated that each military specialty programmed for a bonus in the next 2 fiscal years shall be examined. However, OSD has not performed such a review since the 1991 study and it has drafted new guidance that eliminates the detailed review requirement.

Scope and Methodology

We examined the legislative history of the SRB program and OSD and service regulations for the program. We also interviewed OSD and service representatives to determine their policies on designating SRB skills, awarding SRBs, and paying of VSI and SSB to servicemembers in SRB skills.

⁴The 1991 study also acknowledged that it could only evaluate a portion of the Navy's SRB program because the Navy did not have any realistic requirements for skills under the more detailed Navy Enlisted Classification system.

We analyzed information provided by the services from a number of databases to determine the following for fiscal years 1993 and 1994:

- the number and cost of new SRBS awarded by skill,
- fill rates at the beginning of the year for skills receiving SRBS,
- the number and cost of SRBS awarded to skills with high fill rates, and
- the number of VSIs and SSBs given to personnel in skills eligible for SRBS.

We did not perform a reliability assessment of the databases from which the services provided us data. However, we compared the information provided us to that contained in service reports and discussed the information with service officials to ensure it provided a reasonable and accurate profile of individuals receiving SRBS, the fill rates for SRB skills, and VSI and SSB recipients. Our review was conducted from June 1994 to October 1995 in accordance with generally accepted government auditing standards.

Please contact me at (202) 512-5140 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix II.



Mark E. Gebicke
Director, Military Operations
and Capabilities Issues

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Abbreviations

DOD	Department of Defense
GSM	Gas Turbine Mechanics
IDC	Independent Duty Corpsmen
SRB	Selective Reenlistment Bonus
OSD	Office of the Secretary of Defense
SORTS	Status of Resources and Training System
VSI	Voluntary Separation Incentive
SSB	Special Separation Benefit
NCO	Noncommissioned Officer

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



PERSONNEL AND
READINESS

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SEP 28 1995

Mr. Mark E. Gebicke
Director
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Dear Mr. Gebicke:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "RETENTION BONUSES: More Direction and Oversight Needed," dated August 2, 1995 (GAO Code 703074/OSD Case 9971). The DoD does not concur with the report.

The Department has reduced new Selective Reenlistment Bonus (SRB) contracts by nearly 60% during the past five years. The DoD and Service oversight of this vitally important retention program resulted in new SRB contracts being targeted to the most critical 1.1% of DoD personnel in 1994, down from 2.4% in 1990. For this relatively small investment in the most important DoD asset, highly trained personnel, the Department retains some of our most critical personnel and maintains readiness above minimum requirements for national defense.

The fundamental assumptions of the GAO's analysis are flawed in two ways. First, the DoD does not agree with the GAO assumption that 90% staffing defines "high fill" for a skill category. Certain skill categories are imminently critical to the mission of each Service. Changing conditions in the world, technology changes, training costs, evolution of the operating environment, arduous duty and external economic factors all influence the criticality of certain skills to the military. In many cases, due to these influences, 100% of authorized staffing is not enough to do the job. Each Service must respond rapidly to the changing environment and retain qualified and experienced personnel in sufficient numbers to maintain readiness. Assigning 90% as the delineation of high fill for critical skills is unacceptable and is counter to the logic which has helped keep the military ready to fight during the drawdown.

The second flaw in the GAO methodology is aggregating staffing of zones within skill categories. It is essential that the SRB program continue to be administered by zones, or experience levels within skill categories, since the Services have requirements for minimum levels of staffing within each of these zones. Failure to do so would result in a staffing system that would not allow the necessary flexibility to effectively manage these skill level requirements. A person with 2 years experience cannot be substituted for a person with 10 to 14 years experience, nor is it cost efficient or effective for a senior person to perform a function for which he is over qualified. However, this is what GAO aggregation of numbers



Appendix I
Comments From the Department of Defense

within skills would indicate is acceptable. The SRB program has proven to be the most efficient and cost effective way to attain required retention rates in critical skills.

The Department also does not concur that additional DoD oversight is required. The Services and the Department spend a great deal of time and effort on the SRB program. These programs already go through several lengthy reviews to include annual congressional budget justifications. Layering even more requirements on a well-managed program is counterproductive.

For the above reasons and others addressed in more detail in the enclosure, the Department does not agree with the analysis, nor the recommendations of the report. Like the Congress, the Department is always interested in ways to reduce costs and maintain minimum levels of readiness. The recommendations contained in the GAO report would not be cost effective or in the spirit of streamlining government.

The detailed DoD comments on the report findings and recommendations are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,


F. Pang
Principal Deputy

Enclosure:
As stated

GAO DRAFT REPORT - DATED AUGUST 2, 1995
(GAO CODE 703074) OSD CASE 9971

"RETENTION BONUSES: MORE DIRECTION AND OVERSIGHT NEEDED"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

BACKGROUND

BACKGROUND: The GAO reported that the intent of the program, according to DoD, is to focus reenlistment incentives on critical skills that are in short supply and have high training costs. (pp. 1-2/GAO Draft Report)

DoD Response: Nonconcur. The draft report does not adequately or completely characterize the intent of the program. The Selective Reenlistment (SRB) program is a tool provided by the Congress to help the Department maintain the readiness of our armed forces. Title 37 U.S.C. states that "a member who agrees to train and reenlist in, or who is qualified in a military skill which is critical may be paid a reenlistment bonus." Qualification to receive a reenlistment bonus depends on how critical that military skill is to the individual Service in the accomplishment of its mission. The GAO used assumptions in the draft report that have led to erroneous conclusions. The SRB program is administered by experience levels or zones within skills, but the GAO chose to aggregate experience zones within entire skills, making it appear that SRBs are being paid to "high fill" groups. This is not the case. Further amplification is provided in the DoD responses to the findings. (pp. 1-2/GAO Draft Report)

EVOLUTION OF THE CURRENT PROGRAM: The GAO found that the total cost of new SRB contracts awarded has declined over the past 5 years and that the declines are the result of force downsizing occurring during this period. GAO noted this has reduced the need for military personnel. (pp. 3-6/GAO Draft Report)

DoD Response: Partially concur. The Department concurs with the GAO that costs of new SRB contracts have been declining over the past 5 years, but do not concur that the declines are a result of downsizing. While the number of personnel in uniform during that time has decreased by approximately 30%, SRB contract values have decreased by nearly 60%. The Services have been very careful in the administration of the SRB program during the drawdown given the mandate to shape the force while maintaining high levels of readiness. The GAO provides no evidence to support the assertion that declines in the total cost of new SRB contracts are the result of the drawdown. The GAO does not note that only 1.1% of all active duty personnel received a new SRB contract in fiscal year 1994, down from 2.4% in 1990. The DoD and Services oversight of this program has ensured that the full intent of the Congress is complied with and SRB is paid only to those in the most critical skills needed to maintain adequate readiness.

ENCLOSURE

Now on p. 1.

Now on pp. 2-4.

See comment 1.

FINDINGS

FINDING A: A Substantial Proportion of Selective Reenlistment Bonus Payments Went to Personnel in Skills With High Fill Rates. The GAO found that many selective reenlistment bonuses (SRBs) have gone to personnel who are not in skill categories where extensive shortages exist. The GAO explained that using Service-provided fill rates and SRB information, 81 percent of people awarded SRBs across the DoD in FY 1994 (78 percent in FY 1993) were in skill categories filled at the 90 percent level or above. The GAO noted that SRB contracts cost about \$155 million in FY 1994 and \$165 million in FY 1993. According to the GAO, the 90 percent level is used by the readiness reporting system to indicate the unit's capability to perform all mission requirements. (p. 2, pp. 6-10/GAO Draft Report)

Now on pp. 4-7.

DoD Response: Nonconcur. The statements in this finding are based on three false assumptions. First, the GAO chose an arbitrary figure of 90% staffing as the definition of "high fill" for a skill. Second, the GAO assumed that the need for reenlistment bonuses can be judged by examining the fill rate for an entire specialty, disregarding experience levels or distribution by years of service. Third, the GAO assumed that no bonus can be justified for a specialty with a fill rate greater than 90%. None of these assumptions are correct.

Critical specialties are critical precisely because they need to be fully staffed. The Department not only manages overall staffing, but also manages experience levels. The population within a skill potentially eligible for SRBs is broken into three "zones" or experience levels: Experience is measured by years of service. Zone A is 21 months to 6 years of service, Zone B is 6 to 10 years of service and Zone C is 10 to 14 years of service. The SRB program is managed by experience level for a variety of reasons. The primary reason is readiness. The Department must ensure it will have sufficient numbers of experienced personnel today and enough to develop the supervisors and senior non-commissioned officer leadership that will be needed 5, 10 or more years in the future. For this reason, staffing at 100% is the minimum acceptable in each zone within critical skills. Thus, the SRB program is used to ensure that critical specialties are fully staffed, not that they are staffed at the 90% level that the GAO uses as a measure of merit. For example, a shortage of one critical individual, the Independent Duty Corpsman on a ship renders that ship C-4 for readiness (not able to carry out assigned mission). The GAO methodology indicates, however, that as long as DoD has enough Independent Duty Corpsman for 90% of the ships, the DoD is "high fill" for that skill, and SRB should not be used to increase that percentage of staffing. This view has an adverse impact on readiness and is not acceptable to the DoD.

FINDING B: SRBs and Separation Incentives Were Given to the Same Skill Categories. The GAO reported that to facilitate military downsizing, the Congress authorized two types of special separation pay to personnel who voluntarily leave the military. The GAO noted that it was initially told by DoD representatives that retention and exit bonuses should not be going to personnel in the same skill categories. However, GAO found that in FY 1994, nearly 8,800 military personnel who received new SRB contracts (about \$73 million) were in the same skill categories as about 2,100 separation incentive recipients, who received about \$82 million to leave the military. (pp. 11-12/GAO Draft Report)

Now on pp. 7-8.

DoD Response: Nonconcur. As discussed in the DoD response to Finding A, the GAO methodology ignored the fact that the SRB program is administered by zones or experience levels within skills. In this Finding, the GAO misrepresents what really happened with regard to the drawdown and SRBs. Also as previously mentioned, the Department must retain sufficient personnel to preserve readiness now and 5, 10 or more years into the future. Consequently, during the drawdown the Services worked diligently to accomplish sometimes conflicting goals. Congressional guidance directed the Services to reduce endstrength and use voluntary separation incentives to the maximum extent possible before resorting to involuntary separations. The Services also had to maintain readiness. Thus, the Services force structured by encouraging more senior individuals, surplus to the new, smaller force structure, to leave active duty. At the same time they had to retain adequate numbers of more junior personnel for the future. Therefore, in some cases, individuals within the same specialty separated under one of the voluntary separation programs the Congress provided the Department to manage the orderly drawdown of the military, while others in the same specialty, but with different experience levels were offered reenlistment incentives. However, it is very important to recognize that the more senior populations were offered separation incentives and the more junior populations were offered the opportunity to sign a reenlistment bonus contract, and the groups were different. Therefore, contrary to the GAO implication, the same person was not offered a separation incentive on one hand and a reenlistment bonus on the other.

FINDING C: About Half of SRBs Awarded in High Fill Skill Categories That Also Received Separation Incentives. The GAO observed that a more stringent test of whether SRBs were going to personnel who were not in shortage categories involves the determination of how many SRB recipients were in skill categories that had high fill rates and where some personnel also received incentive payments to leave the military. The GAO determined that in FY 1994 and 1993, 43 percent of the new SRB contracts awarded (\$64 million in FY 1994 and \$65 million in FY 1993) were in skill categories with fill rates of 90 percent or higher and to which exit incentives were paid. The GAO noted that furthermore, 9 percent of new SRB contracts awarded in FY 1994 and 17 percent in 1993 were in skill categories with fill rates of 100 percent or higher and to which exit incentives were paid. According to the GAO, the cost of those contracts was about \$14 million for FY 1994 and about \$29 million for FY 1993. (pp. 12-15/GAO Draft Report)

DoD Response: Nonconcur. As previously stated in the DoD response to Finding B, fiscal years 1993 and 1994 comprised the bulk of the drawdown. The Services shaped the force, kept the right people, maintained readiness with a significantly smaller force and did it on a tight budget. The GAO methodology of aggregating experience zones within entire skills makes it appear that the same individual could sign a new SRB contract or opt to receive an exit incentive. That is not correct. The Services' drawdown and SRB programs were designed so this did not happen.

FINDING D: DOD Guidance and Oversight of the SRB Program are Lacking. The GAO concluded that the DoD is not providing adequate direction and oversight of the SRB program. According to the GAO, the DoD guidance to the Services for determining which skill categories

Now on pp. 11-12.

should receive SRBs is general in nature. The GAO found that as a result, each Service uses a different procedure for identifying which skill categories are to receive SRBs. With regard to oversight, the GAO explained that while DoD guidance requires detailed annual reviews of the skill categories that the Services plan to include in their programs, those reviews are not being conducted. The GAO found that the DoD performed only one such review, in 1991, during which the need for 34 percent of the skill categories was questioned. However, the DoD did not require the Services to respond to the report findings, did not take any action on the findings, and has not conducted any subsequent reviews. (p.3, pp. 17-19/GAO Draft Report)

DOD Response: Nonconcur. Guidance from the OSD to the Services concerning the SRB instructs the Services to use a balanced evaluation that should include, but not be limited to, a full assessment of the following factors:

- (1) Serious undermanning in three or more adjacent year groups in the bonus zones.
- (2) Chronic and persistent shortages in total career manning.
- (3) High replacement cost.
- (4) Skills that are relatively arduous or otherwise unattractive compared to other military skills or civilian alternatives.
- (5) Skills that are essential to the accomplishment of defense missions.

The DoD guidance provides a boundary within which the Services may administer the SRB program to meet their diverse individual needs in what can and has been a rapidly changing operational environment. Each Service needs the flexibility to assess the current situation and pay bonuses to maintain minimum states of readiness. Under the budget process, the Services get a once a year opportunity to submit SRB budgets. Adding more complications to the already cumbersome system of budgeting and finance by layering additional restrictions on the Services to formulate SRB plans is inefficient and not in keeping with the Administration's goal of reinventing government, nor the Congress' goal of reducing unneeded regulation and paperwork.

The Department also does not concur with GAO statement on page 18 that detailed annual reviews of the SRB program are not being conducted. In fact, the SRB process forces rigorous and frequent review. Initially, enlisted community or function managers match available personnel to billets and requirements. Shortfalls in experience levels are submitted to Service SRB managers who semi-annually validate experience level requirements within skill categories. The SRB managers determine the cost effectiveness of paying a bonus. The Services also use computer modeling to further validate cost effectiveness. Service manpower managers then review and consolidate inputs and make recommendations based on fiscal constraints and validation of requirements. Further, they review programs and recommend changes based on field commander requirements. The SRB plan is then approved/disapproved by the Service Director of Military Personnel Policy. When approved by the Service Secretariat, SRB budgets are submitted to the OSD and the OMB for review.

The GAO draft correctly notes on page 18 that in 1991, the DoD commissioned a one-time study of the SRB program. Some of the findings of that study are quoted by the GAO in this draft report. More completely, the draft should also state that "Overall the Services SRB programs are in compliance with DOD policy and are well managed."

* * * * *

RECOMMENDATION

RECOMMENDATION: The GAO recommended that the Secretary of Defense establish guidance and controls to ensure that the SRB program provides bonuses only for reenlistments in skill categories which are in short supply. Specifically, the GAO recommended that the Secretary:

- provide more explicit guidance regarding the determination of shortage categories and eligibility for SRBs and require the Services to establish and document more specific criteria for determining which skills will receive SRBs;
- monitor the Services' adherence to this guidance; and
- ensure that exit incentives are not provided to service members in skill categories that receive SRBs. (p. 19/GAO Draft Report)

DoD Response: Nonconcur. DoD criteria for determining shortages and eligibility for SRBs is adequately restrictive and keeps Services well within the bounds intended by the Congress. The DoD faces lengthy budget cycles, a rapidly changing operational environment and a constantly changing economic environment drawing people out of the military. Therefore, it is not effective or efficient to attempt to impose finite details of eligibility under which the Services can retain sufficient quality and experience mixes of personnel to maintain adequate readiness. These finite details are constantly changing and each Service needs the flexibility to maneuver within boundaries which ensure the intent of the Congress is maintained, while being able to respond to rapidly changing requirements for readiness.

A review of the retention of Gas Turbine Mechanics in the Navy shows how rapidly reenlistment rates, one of the factors considered in determining SRB payment, can change. In one year, reenlistment rates went from 63.3% to 37.8% for first termers in that skill. The Services need the flexibility to act before staffing becomes a crisis in a skill. The Services are in the best position to identify future staffing requirements due to new equipment, changes in operational environment and changes in retention rates. There are already multiple layers of review within each Service and review by the OSD, Office of Management and Budget and the Congress in appropriations. Layering additional requirements on a system already described by independent auditors in a 1991 Special Study as "well managed" would not enhance readiness.

The following are GAO's comments on the Department of Defense's letter dated September 28, 1995.

GAO Comments

1. While there may have been other contributors, the drawdown was the main reason for the reductions cited by service Selective Reenlistment Bonus (SRB) program managers and stated in service budget justification documents submitted to Congress. In its budget documents over this period, the Navy stated that "the number of new payments declined . . . due to force structure reductions." In discussing the declining total cost of new SRB contracts, the Air Force reported in its budget documents to Congress that ". . . the overall drawdown of the force is a contributing factor to the lower totals . . ." In addition, SRB program managers in all four services told us that, generally speaking, the declining total cost of new SRB contracts resulted from the drawdown.

2. As of September 1995, the Navy had 989 Independent Duty Corpsmen (IDC) against an authorization of 981 billets, a fill rate of over 100 percent. The Navy has requirements for an IDC functioning as the sole medical care provider on 231 of its approximately 372 ships. Even in the unlikely scenario that all 231 ships were deployed at one time, the Navy should have no trouble providing the 231 IDCs from its inventory of nearly 1,000 IDCs.

3. While Navy data shows that the first-term retention rate for Gas Turbine Mechanics (GSM) declined from 63.3 percent to 37.8 percent during fiscal year 1994, there is no apparent relationship between the decline and the SRB program. When the Navy reduced the first-term SRB award payment for GSMS by nearly two-thirds over the course of fiscal year 1991, the first-term retention rate actually increased to 57.6 percent from 53.9 percent during the year. With the SRB award to first-term GSMS maintained at the reduced payment level, retention rates were 68.2 percent and 63.3 percent at the end of fiscal years 1992 and 1993, respectively. According to Navy officials, the drop in reenlistment of first-term GSMS that occurred in fiscal year 1994 was the result of a perception among personnel within that skill area that, because of reduced ship construction and possible ship decommissionings, there was no future in the GSM rating. Despite the drop in the first-term reenlistment rate, as of September 1995, the Navy had an inventory of 2,974 GSMS against an authorization of 2,871 billets, a fill level of over 100 percent.

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